COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

GREEN RIVER ELECTRIC CORPORATION'S)
NOTICE OF INCREASE IN RATES FOR) CASE NO. 90-152
RETAIL ELECTRIC SERVICE)

O R D E R

On June 29, 1990, Green River Electric Corporation ("Green River") filed with this Commission its notice of an intent to increase rates for retail electric service to become effective on August 1, 1990. This proceeding combines Green River's request for a general rate increase with its request to flow through the increase in wholesale rates proposed by Big Rivers Electric Corporation ("Big Rivers") in Case No. 90-128, An Adjustment of Wholesale Electric Rates of Big Rivers Electric Corporation.

The rates to flow through the increase proposed by Big Rivers would produce additional revenue of $3,359,959 annually, an increase of 2.44 percent based on normalized test-period revenues. The proposed rates for the general increase would produce additional revenue of $1,378,926 annually, an increase of .976 percent over normalized test-period revenue adjusted for the proposed flow through. The total increase requested is $4,738,885 or 3.44 percent over normalized test-period operating revenue. Green River stated that the proposed changes in rates, above the amount required to flow through the Big Rivers' rate increase, were required to generate additional revenue to cover increased operating costs, to provide the margin required to achieve a Times Interest Earned Ratio ("TIER") of 2.00X, and to reallocate certain revenue responsibilities among Green River's rural customers in accordance with the findings of a cost-of-service study prepared for Green River by Southern Engineering Company of Georgia.

The Commission granted motions to intervene filed by the Utility and Rate Intervention Division of the Office of the Attorney General ("AG"); National-Southwire Aluminum Company ("NSA"); and Commonwealth Aluminum Corporation ("Commonwealth Aluminum").

On July 20, 1990, the Commission issued a procedural Order suspending the proposed increase in rates for 5 months, until January 1, 1991, in order to conduct an investigation into the reasonableness of the proposed rates. A hearing was scheduled for October 17, 1990. Green River was directed to provide statutory notice to its consumers of the proposed rate increase and the scheduled hearing pursuant to 807 KAR 5:011, Section 8.

On September 24, 1990, Commission Staff submitted testimony on the revenue requirements of Green River. Testimony was also filed by Commonwealth Aluminum. NSA submitted no proof, but generally supported the application of Green River with a few exceptions.

An Informal Conference for the purpose of settling any of the issues was scheduled for October 16, 1990. The Settlement Conference was concluded with no agreement by any of the parties.

The hearing was conducted in the Commission's offices in Frankfort, Kentucky, on October 17, 1990. Briefs and reply briefs were filed and the information requested during the hearing has been submitted.

The AG recommended that the Commission accept Staff's recommendations. The AG further asserted that: Green River is comparable to other cooperatives in Kentucky; all accounting adjustments related to the hiring of the four person pole change crew should be denied; the $17,500 adjustment for geothermal installations finders fees should be denied; salaries and expenses in the amount of $55,248 associated with the use of part-time employees should be denied because of Green River's already excessive number of employees; Green River's appropriate TIER is 1.98; and, the principle of gradualism should be adhered to in the design of Green River's rates.

NSA supported Staff's recommendation that Green River adopt an equity management plan that included a provision for the rotation of patronage capital credits. NSA further asserted that when Green River is in a position to rotate capital credits, NSA should be entitled to its proportionate share. NSA further stated that the generation and transmission capital credits ("GTCC") assigned by Big Rivers should be included in Green River's equity, as recommended by Staff.

Commonwealth Aluminum recommended Green River's proposed rate increase be denied and that the current demand rate charge of $8.80 remain unchanged or, alternatively, that Commonwealth

Aluminum's minimum demand charge be reduced from 40 MW per month to 30 MW per month.

COMMENTARY

Green River is a consumer-owned rural electric cooperative corporation, organized under Chapter 279 of the Kentucky Revised Statutes, engaged in the distribution and sale of electric energy to approximately 25,385 member-consumers in the Kentucky counties of Breckinridge, Daviess, Hancock, Henderson, Hopkins, McLean, Muhlenberg, Ohio, and Webster. Green River has no electric generating facilities of its own, and purchases all of its power from Big Rivers.

TEST PERIOD

Green River proposed and the Commission has accepted the 12-month period ending February 28, 1990 as the test period for determining the reasonableness of the proposed rates. In utilizing the historical test year, the Commission has given full consideration to appropriate known and measurable changes.

VALUATION

Net Investment

Green River presented a net investment rate base of $40,217,804 based on the test-year-end value of plant in service, the 13-month average for materials and supplies and prepayments, and excluding the adjusted accumulated depreciation and the test-year-end level of customer advances for construction. In addition, Green River proposed to include working capital based on one-eighth of adjusted operation and maintenance expenses, exclusive of depreciation, taxes and other deductions. The

Commission concurs with this determination with the exception that working capital has been adjusted to reflect the pro forma adjustments to operation and maintenance expenses found reasonable herein.

Based on these adjustments, Green River's net investment rate base for rate-making purposes is as follows:

Utility Plant in Service	$47,248,533
Construction Work in Progress	333,143
Total Utility Plant	$47,581,676
ADD:	
Materials and Supples	$ 821,741
Prepayments	620,549
Working Capital	651,440
Subtotal	$ 2,093,730
DEDUCT:	
Accumulated Depreciation	$ 9,232,200
Customer Advances for Construction	223,795
Subtotal	$ 9,455,995
NET INVESTMENT	$40,219,411

Capital Structure

Staff proposed a total capitalization for Green River which consisted of 58.4 percent equity and 41.6 percent debt. Staff's equity component of capital contained the test-year-end level of GTCC allocations from Green River's power supplier, Big Rivers. Green River opposed the inclusion of Big Rivers' GTCCs in the determination of capital and recommended that the equity component be reduced to 37.5 percent since Big Rivers' capital credit allocations to Green River did not reflect the fact that Big Rivers had experienced an accumulated deficit of $29,406,971.

The Commission is aware of the unique relationship between Green River and its power supplier which gives rise to the GTCC component of its equity. The Commission is also aware that for purposes of determining Green River's compliance with mortgage requirements, its primary lender, The Rural Electrification Administration, includes GTCCs in the equity to total asset ratio. The equity of the cooperative represents the amount paid by the consumer/owners in excess of the cost of providing electric service. Since Big Rivers has not assigned recent years operating losses to Green River, there has been no reduction in the level of equity assigned in prior years. Until Big Rivers assigns these losses to Green River or offsets these losses with earnings, the equity level reflected in Green River's balance sheet is properly stated.

The Commission finds, based on the evidence presented in this case, that the equity including the GTCCs is more representative of the actual accumulated earnings of Green River and the determination of capital should include the GTCCs in equity. The total capitalization of $69,803,477 approved for Green River in this case consists of $40,761,986 in equity and $29,041,491 in long-term debt.

REVENUES AND EXPENSES

Green River proposed several adjustments to revenues and expenses to reflect more current and anticipated operating conditions. The Commission finds the proposed adjustments are generally proper and acceptable for rate-making purposes, with the following modifications:

Other Operating Revenue

Green River proposed one adjustment to other operating revenue to reflect the combined impact of a proposed decrease in pole attachment rates and an increase in the number of pole attachments. The Staff recommended that the adjustment be broken down into two components: a normalization adjustment to reflect a revenue increase of $4,905 based on the existing pole attachment rates applied to the increased pole attachments at the end of the test year; and a pro forma adjustment to reflect a revenue decrease of $1,004 based on the proposed decrease in pole attachment rates applied to the test-year-end level of pole attachments. The Commission finds that two separate adjustments more accurately reflect the changes in other operating revenues.

Labor and Labor-Related Costs

Green River proposed to include a total of $222,028 in increased wages and salaries and payroll-related costs consisting of a $170,684 increase resulting from wage increases that occurred on January 1, 1990; a $13,213 increase in payroll taxes based on the increased wages and the 1990 payroll tax bases and rates; a $24,082 increase in the defined contribution pension plan expense resulting from the increased wages and employee saving percentages changing; and a $14,049 increase in Workers' Compensation due to changes in wages and Workers' Compensation rates.

Commission Staff recommended that these adjustments be excluded based on its analysis of Green River's wages and salaries compared to those of other cooperatives. Staff claimed that Green River's payroll was already excessive and that no increase was justified. Green River rebutted Staff's analysis with evidence of some errors and omissions contained in the data. Green River also provided copies of a wage and salary study performed in 1985 and a benefits study performed by Green River in March 1990.

The AG recommended that $55,248 in labor and labor-related costs incurred in the test year for part-time labor be denied. This recommendation was based on the assertion that Green River employed an excessive number of employees and, hence, did not need to employ part-time labor.

While some information presented by the staff would indicate that Green River's payroll levels are higher than other cooperatives, Staff has not presented conclusive evidence that would substantiate the disallowance of the adjustment proposed by Green River.

New Pole Change Crew and Related Adjustments

Green River proposed to include $87,734 to recognize the addition of a new pole change crew, the overhead costs associated with the crew addition, and the increased costs of inspecting and replacing more poles than in the test year. Staff recommended denying the proposed increase due to a concern that expenses related to the new crew were already included in other adjustments and Staff's recommendation that Green River's work force is already excessive. Green River provided, during the hearing, additional information regarding when the new employees were added to the payroll and when the new equipment was placed in service. This additional information remedies the Staff's concerns related to double counting the cost increases. Therefore, the Commission has allowed the labor and labor-related adjustments proposed by Green River.

The AG opposes the adjustments related to the hiring of the four person pole change crew based on Staff's assertion that Green River has an excessive number of employees. The AG recommended excluding $5,170 from the TIER calculation. This $5,170 was imputed interest on the loan funds used to purchase the pole change crew related equipment. However, we have determined that it is reasonable to include the cost associated with the hiring of a new four person pole change crew, and any imputed interest should not be excluded from the TIER calculation.

Green River's proposed adjustments to reflect the cost associated with the new pole change crew and pole inspections are known and measurable and the adjustment of $87,734 should be included in the determination of revenue requirements.

Health, Life, and Disability Insurance Adjustment

Green River originally proposed an adjustment of $41,936 to recognize increases in health, life, and disability insurance which Commission Staff recommended be included for rate-making purposes.

Green River submitted a revised proposed adjustment, an increase of $156,168 over test-year actual. The revision was based on August 1, 1990 increases in Green River's health insurance plan. Inasmuch as part of the increase would be borne by Green River's employees through an increase in the deductible, beginning January 1991, Green River based its total increase on amounts expected to be payable in January 1991.

Increases in health, life, and disability insurance occurring in August 1990 are too far beyond the end of the historical test period to be included for rate-making purposes. Green River has not proposed an adjustment to increase revenue to customer levels expected in August 1990 and has not recognized other factors which have changed subsequent to the end of the test period which would affect the revenues and expenses. To recognize one element of inflationary pressure without recognizing other growth and productivity factors that similarly affect revenue requirements would create a mismatch in revenue and expenses. An adjustment to the test year of $41,936 reflects a much better match.

Property Tax Adjustment

Green River originally proposed to adjust property tax expense by $15,518 based on the December 31, 1989 property tax return filed with the Department of Revenue and 1989 tax rates. Green River later submitted a revised adjustment which would increase the county property tax expense by an additional $20,249. The revised adjustment was based on increases expected to occur as a result of the Kentucky Education Reform Act.

Staff recommended acceptance of the $15,518 proposed increase. The total county tax bills as amended by Green River could not be verified because the other aspects of the property tax bills, which were subject to change also, were unavailable.

It is inappropriate to include an increase relating to only a portion of the county tax bills when the total county tax bill may be more or less than the amount proposed. Furthermore, the expense associated with the new assessment rates and tax valuations is not actually incurred until several months beyond the test period. The $15,518 adjustment originally proposed is known and measurable and has been included in the determination of revenue requirements.

Professional Services Expenses

Staff proposed an adjustment to reduce the test-year level of Professional Services Expenses by $70,444. The basis for Staff's proposal was that some of the expenses were extraordinary and non-recurring and approximately $32,540 could not be identified due to the omission of the description of services provided on the invoices for legal expenses. Green River initially contended that the information was not provided because it was attorney-client privilege and not available for public inspection. Green River subsequently resubmitted the legal invoices with the description of the services provided in most instances.

The Commission has determined, due to the unique nature of the extensive negotiations and legal proceedings surrounding its largest customer NSA, that a portion of the legal fees incurred during the test period should be excluded. Legal fees of $23,375 incurred in connection with Big Rivers' Case No. 10265,[1] Green

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1 Case No. 10265, Big Rivers Electric Corporation's Notice of Changes in Rates and Tariffs for Wholesale Electric Service.

River's Flow-Through Case No. 10275[2] and the Big Rivers Smelter Settlement Case No. 89-376[3] are excluded.

Advertising Expense

Staff proposed excluding test-year advertising expenses of $8,683. Part of the expense was identified as institutional advertising and part as advertising associated with the non-utility subsidiary of Green River, Kentucky Telecommunications, Inc. ("KTI").

Green River's analysis of advertising expenditures for the test year showed that $5,078 had been expended for institutional advertising. Pursuant to 807 KAR 5:016, institutional advertising is expressly disallowed.

Commission Staff proposed a disallowance of $3,605 in advertising which Staff felt approximated the cost to Green River for advertising related to KTI. Advertising satellite television availability was a part of the contractual agreement between Green River and KTI and was a part of the costs recovered by the $2 per month subscriber fee.

Since the advertising is required by the contract with KTI and the cost is being offset by income which is also included in Green River's pro forma operating statement, the expense should be included for rate-making purposes.

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2 Case No. 10275, Green River Electric Corporation's Notice of Increase in Rates for Retail Electric Service.

3 Case No. 89-376, National Southwire Aluminum Company vs. Big Rivers Electric Corporation, Green River Electric Corporation, Alcan Aluminum Corporation, and Henderson-Union Rural Electric Corporation.

Green River has shown the net income from all activities in KTI as totalling $3,266. The evidence indicates that Green River's cost analysis on the KTI activities was deficient to the extent that these advertising costs were not included. It appears that the inclusion of advertising charges would result in a loss on the satellite television services if only the $2 monthly subscriber fee and associated costs are considered. This indicates that there is potentially some subsidization of the satellite television operations by Green River's electric operations. Green River should improve its cost identification and allocation procedures to ensure that all costs attributable to investments in KTI are assigned to the proper account so the reasonableness of the investment can be more closely evaluated.

Miscellaneous General Expenses

Staff proposed a disallowance of $13,387 in expenses incurred by Green River for a children's Christmas party and gifts, a Christmas banquet, other Christmas gifts, a retirement gift, and centerpieces. All of these expenses were for the benefit of Green River's employees, board members, and/or families. Green River argues that these expenses are legitimate business expenses and that the Commission had in fact allowed such costs as service awards and employee dinners in the past.

Expenses of $13,387 associated with Christmas parties, banquets and centerpieces, and a retirement gift provide little or no direct benefit to the consumers and should not be included in operating costs for rate-making purposes.

Board of Director's Expenses

Staff proposed disallowing $4,568 in expenses associated with two "emeritus" (retired) directors. Green River did not address this issue.

Expenses paid to or on behalf of retired directors should not be allowed for rate-making purposes. This position is consistent with past Commission practice.

Miscellaneous Costs Related to NSA Contract Negotiations

Staff recommended reducing test-year miscellaneous expenses by $2,910 to remove nonrecurring expenses incurred in relation to NSA contract negotiations. The Commission has chosen not to make this adjustment. Although these particular expenses, relating to NSA contract negotiations, may not recur, Green River can reasonably expect to incur similar expenses in other situations in the future.

Administrative and General Expenses

Staff recommended that the Commission disallow $1,751 in expenses associated with various staff meetings, Secretaries' Day, and community affairs meetings on the grounds that these expenditures were not essential to providing electric service. We agree. Green River argues that this expense was a legitimate business expense according to the U.S. Master Tax Guide implying that since it was allowable for tax purposes it should also be allowed for rate-making purposes. Green River further stated that Staff had singled out expenses that had been incurred at various social clubs simply because of where the expense was incurred.

The Commission recognizes that many items of expense and revenue are treated one way for tax purposes and another for rate-making purposes. Thus, the particular tax treatment afforded an item of revenue or expense does not in itself determine the rate-making treatment. Green River has offered no persuasive evidence that these expenses are essential to providing electric service at reasonable rates.

Geothermal Installations Finder's Fee

The AG recommended that the Commission disallow the $17,500 adjustment to increase expenses to recover a new geothermal incentive program proposed by Green River, since this expense related solely to "below the line" activity. Staff concluded that the finder's fee had two separate functions, merchandising and to promote energy conservation. Staff recommended recording one half of the proposed expense in Account No. 416, Costs and Expenses of Merchandising, Jobbing and Contract Work, to offset merchandising revenues. Staff included the remaining one half of the finder's fees in Account No. 908, Customer Assistance Expenses, to recognize the energy conservation aspects of the expense.

The expense adjustment is reasonable and should be allocated, one half to Account No. 416, and one half to Account No. 908.

Rate Case Expenses

Commission Staff proposed that rate case expenses be reduced by $28,083 to exclude the cost of Green River's previous rate case and to reflect the actual cost of this case which was known to that date. Green River proposed that the estimated $75,000 cost of this case, amortized over 3 years, be included in determining revenue requirements.

Green River filed a statement of rate case expenses actually incurred through November 19, 1990 totalling $62,472. The actual level of expense incurred through November 19, 1990 is reasonable and should be included for rate-making purposes. The Commission has amortized this cost over 3 years to spread the cost over a reasonable benefit period resulting in an annual cost of $20,824 and has also recognized the Staff adjustment to exclude the cost of the previous case. These adjustments result in a net reduction of $11,284 for rate case expense.

Regulatory Assessment Adjustment

Green River proposed three adjustments to its regulatory commission assessment expense. The proposed adjustments were to recognize a decrease in the amount of $30,529 related to the revenue normalization adjustment; an increase of $2,370 to reflect the flow-through adjustment; and an increase of $1,998 to reflect the additional increase in rates originally proposed by Green River.

Green River applied the 1989 Assessment Rate of .001449 to the revenue subject to the assessment in its determination of the above amounts. Staff recommended that the assessment be calculated using the 1990 assessment rate and Green River agreed that the current assessment rate should be used in arriving at the known and measurable regulatory assessment.

The Commission has applied the current rate of .001221 to the adjusted test-period revenue subject to the assessment, to calculate an allowable expense of $91,690 which is $45,208 less than the actual test-period expense. This calculation includes the effects of the normalization and flow-through adjustments only. The additional assessment expense associated with the revenues granted in addition to the flow-through is addressed in the Revenue Requirements Section of this Order.

The effect of the pro forma adjustments on Green River's net income is as follows:

	Actual Test Period	Pro Forma Adjustments	Adjusted Test Period
Operating Revenues	$179,742,460	$(38,447,157)	$141,295,303
Operating Expenses	177,788,893	(38,136,330)	139,652,563
Operating Income	1,953,567	(310,827)	1,642,740
Interest on Long-Term Debt	1,504,794	107,923	1,612,717
Other Income and <Deductions> - Net	1,131,388	(843,141)	288,247
NET INCOME	$ 1,580,161	$ (1,261,891)	$ 318,270

REVENUE REQUIREMENTS

The actual rate of return earned on Green River's net investment rate base established for the test period was 4.86 percent. Green River requested rates that would result in a TIER of 2.00X and a rate of return of 7.27 percent on its proposed rate base of $40,217,804. Staff proposed a return on total capital of 4.6 percent and a TIER of 2.00X.

Green River's actual TIER for the test period was 2.05X and was 2.25X and 1.73X for the calendar years 1989 and 1988, respectively. After taking into consideration pro forma adjustments, Green River would achieve a 1.20X TIER without an increase in revenues. Green River's equity to total asset ratio is 58.4 percent based on the approved capital structure.

Based on the evidence of record, the Commission has determined that rates calculated to produce a TIER of 2.00X should be granted. In order to achieve this TIER, Green River should be allowed to increase its annual revenue, after adjustment for the flow-through of Big Rivers' increase, by $1,296,027. This increase includes an additional $1,581 to reflect the associated increase in Green River's regulatory assessment. This additional revenue should produce net income of $1,612,717, which should be sufficient to meet the requirements in Green River's mortgages securing its long-term debt.

PRICING AND TARIFF ISSUES

Cost-of-Service Study

Green River filed an allocated cost-of-service study prepared by Jack D. Gaines of Southern Engineering Company. The purpose of the study is to allocate some portion of Green River's total expenses to each regular tariff customer class to determine the adequacy of each of those class's respective rate from a total revenue requirement basis, as well as the appropriateness of the rate design which determines revenue recovery within each class.[4] The methodology employed in the cost-of-service study is principally based on the general concepts and guidelines stated in

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4 Direct Testimony of Jack D. Gaines, page 6.

the electric utility cost allocation manual as prepared by the National Association of Regulatory Utility Commissioners.[5] The Commission finds that these methodologies are reasonable and that Green River's cost-of-service study is acceptable and should be used as a starting point for rate design.

Revenue Allocation

Green River proposed using a demand multiplier and energy adder to flow through Big Rivers' proposed increase to its tariff customers. The increase from Big Rivers, as flowed through to Green River's tariff customers, consists of increased demand charges of $1,221,693 and increased energy charges of $183,758. The remainder of the Big Rivers increase, approximately $1,956,000, is flowed through to Green River's contract customers. The Commission finds Green River's flow through methodology to be reasonable and approves the flow through of the Big Rivers' increase.

Green River proposed allocating the full amount of its requested general revenue increase to residential and single-phase customers except for an increase of $35,834 to a special contract customer, Alumax Aluminum ("Alumax"). Green River proposed no increase for its three-phase customers below 1,000 KW and proposed decreases for its three-phase 1,000 KW and above class and its cable television attachment rates. For street and individual

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5 Id.

consumer lighting, Green River proposed to decrease revenues back to their pre-flow through levels.

Staff recommended a slightly different approach for allocating the general revenue increase. Except for the $35,834 increase to Alumax, the full amount of the increase would be allocated to the residential and single-phase class with no decreases or roll-back of the flow-through increase for the remaining customer classes.

The Commission finds that the full amount of the approved increase, except for the increase to Alumax, should be allocated to the residential and single-phase class. A decrease in revenues from Green River's cable television attachments is appropriate based on the formula set forth in Administrative Case No. 251.[6]

The outdoor lighting and three-phase customer classes, will, in total, be allocated no revenue increase or decrease. Assigning the overall increase to the residential and single-phase class will significantly reduce the disparities in the relative class rates of return. At the same time, maintaining the existing contribution levels of the lighting and three-phase classes will somewhat lessen the impact of the increase on the residential and single-phase class. In recognition of the intertwined nature and rate relationships between the various three-phase rate classes, it is appropriate to combine the over 1,000 KW class with the

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6 Administrative Case No. 251, The Adoption of a Standard Methodology for Establishing Rates for CATV Pole Attachments, August 12, 1982.

under 1,000 KW class for revenue allocation purposes. The combined three-phase classes have not been allocated any decrease or increase. In order to achieve this result yet maintain the rate relationship between Options A and B in the over 1,000 KW class as well as the relationship between Option B and the under 1,000 KW class with the primary discount, the Commission has approved Green River's proposed decrease for the over 1,000 KW class and has allocated a similar increase to the under 1,000 KW class.

The resulting allocation produces increases (decreases) for the various rate classes as follows: residential and single-phase - $1,261,197; three-phase under 1,000 KW - $79,971; three-phase over 1,000 KW - ($79,971); Alumax - $35,834; pole attachments - ($1,004); outdoor lighting - 0. Given the results of Green River's cost-of-service study the Commission finds this to be an equitable allocation of the approved revenue increase.

Rate Design

Under Green River's proposed 6.38 percent general increase for the residential and single-phase class, the customer charge would receive a 9.6 percent increase, from $7.30 to $8.00 per month, while the declining block energy charges would receive increases ranging from a high of 6.8 percent in the first consumption block down to 4.9 percent in the last block. Green River maintained that its proposal was cost justified and reflected a moderate movement toward cost-based rate design.

The Staff recommended increasing the customer charge for the residential and single-phase class by the percentage of the increase it recommended in proportion to Green River's requested increase. Staff further recommended increasing the energy charges by equal amounts per KWH to maintain the rate differentials resulting from the flow through. Staff's recommendations reflected a moderate move toward cost-based rates and a desire to avoid increasing the disparities between the energy blocks. The AG concurred with these recommendations.[7]

A moderate move toward cost-based rates is appropriate. While there is no rule of thumb which requires a customer charge to cover a certain portion of customer costs, an 8.4 percent increase compared to the overall 5.6 percent increase for the class will move the customer charge closer to customer costs but in a manner that adheres to the Commission's often-stated goals of gradualism and rate continuity. An equal increase for all energy charges maintains the block differential which would result in a steeper declining block. The Commission believes that a move toward cost-based rates via an increased customer charge is to be accompanied by a move toward flatter energy blocks.

For three-phase service under 1,000 KW class, Green River proposed to restructure its rates by increasing customer and demand charges while decreasing energy charges in a manner which resulted in a steeper declining block. For three-phase service over 1,000 KW class, Green River proposed to restructure its

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7 Brief of the AG, November 19, 1990, page 7.

existing rates effecting a $79,971 decrease from the flow-through rate level. Green River proposed to designate this restructured rate as its Option A rate for high load factor customers and to create an Option B rate for low load factor customers.

The Staff accepted Green River's proposal to restructure rates for the three-phase service under 1,000 KW but recommended decreasing energy charges by equal amounts per KWH to maintain the block differential at the flow through level. For three-phase service over 1,000 KW, Staff recommended accepting Options A and B but proposed to increase Green River's proposed rates to maintain the revenue level resulting from the flow through. Staff proposed to add back the $79,971 through equal increases to all energy charges and increased the proposed Option B rates by a like amount.

As discussed earlier, the Commission is approving Green River's proposed decrease for the three-phase service above 1,000 KW class. Accordingly, we have approved Green River's proposed Options A and B rates for high and low load factor customers, respectively.

For the three-phase under 1,000 KW class revenues are increased by $79,971 above the flow through level. To accomplish this the Commission will approve the proposed increases in customer and demand charges which increase revenues by $108,114 above the flow through level but will limit the energy charge decreases to approximately $28,000 from the flow through level. Energy charges will be reduced by equal amounts from the flow through rates to maintain the block differentials and avoid steepening the declining block structure. The Commission recognizes that this approach does not shift as much cost to the demand component of the rate structure as does Green River's proposal. Such cost shifting would be better accomplished through increasing the demand charge rather than increasing the first and second energy blocks.

For street and individual consumer lighting, Green River proposed to reduce rates to the levels in effect prior to the flow through. As previously discussed, the Commission allocated no decrease to this class, but finds it appropriate to maintain the existing contribution level while reflecting the flow through increase.

For cable television attachment rates, Green River proposed a reduction in rates based on the formula established in Administrative Case No. 251. The Commission finds Green River's proposed rates for cable television attachments to be reasonable.

Commonwealth Aluminum - Special Contract

Commonwealth Aluminum generally opposed Green River's requested increase and specifically opposed the increased demand charge. Commonwealth Aluminum argued that under the terms of its contract with Green River and given its present operating conditions, it would be adversely impacted by the proposed increase more than any other customer. It based this claim on the 40 MW minimum billing demand it is required to pay under its contract compared to its actual monthly demand of 32 MW.

Commonwealth Aluminum argued that its circumstances placed it in a unique situation deserving of special consideration similar to what Commonwealth Aluminum claimed that NSA receives under the variable rate settlement with Big Rivers and Green River. Commonwealth Aluminum proposed two alternatives for alleviating the adverse impact of the proposed increase: (1) maintain the current demand rate charged to Commonwealth Aluminum or (2) reduce Commonwealth Aluminum's minimum billing demand. Commonwealth Aluminum contends that either of these alternatives would result in its electric charges being consistent with those of Green River's comparable contract customers.

Green River disputed the claims made by Commonwealth Aluminum and argued that there was insufficient evidence in the record to justify any Commission action on Commonwealth Aluminum's requests. Green River contends that Commonwealth Aluminum's understanding of the requested rate changes is incorrect, that Commonwealth Aluminum will not be impacted more adversely than any other customer, and that Commonwealth Aluminum's proposal constitutes a request for preferential rate treatment.

The Commission notes that there are at least 20 industrial customers on the Big Rivers' system who have signed long-term service contracts that impose minimum billing demands on the customers. Of those contract customers, at least five have recently experienced actual demands that were less than their contract minimum billing demands. Each of these customers, except for Commonwealth Aluminum, accepted these events as normal business risks. There is no evidence that Commonwealth Aluminum's service contract was induced by fraud or even misrepresentation. Rather, Commonwealth Aluminum admitted that it purchased the former Martin-Marietta facility knowing that the service contract existed and assuming the obligations of the contract. In addition, such minimum contract demand levels were relied upon by Big Rivers in forecasting the need for the Wilson Generating Plant.

Commonwealth Aluminum claims that the adverse impact of the proposed rate increase is demonstrated by its exhibit showing the cumulative percentage increases in its electric costs since 1979. This evidence is unpersuasive for three reasons. First, the percentage increases shown are overstated by reflecting a combination of increased rates and increased consumption levels. The actual rate increases for Commonwealth Aluminum during this time were below the rate of inflation. Second, each of the rate increases was preceded by an investigation and a hearing. In each instance, the rates were set at the level necessary to permit the recovery of all reasonable costs and expenses. The issue is not the reasonableness of rate increases over the past 12 years, but rather the reasonableness of a demand increase from $8.80 per KW to $10.15 per KW.

Third, the rate increases shown were borne by all customers, not just Commonwealth Aluminum. There is no evidence that Commonwealth Aluminum was ever charged rates that materially differed from those charged other customers of similar size. To the extent that Commonwealth Aluminum's cost per KW consumed exceeds the tariffed rate, this is due solely to Commonwealth Aluminum's decision to consume less power than its contracted-for minimum.

Having contracted for a minimum billing demand of 40 MW, Commonwealth Aluminum is not now entitled to revise its contract simply because it has made a business decision to operate at a lower demand level. As Commonwealth Aluminum stated, it signed a long-term contract for a minimum of 40 MW, and a maximum of 60 MW, of capacity to guarantee it a reliable source of power. That reliable source of power does exist, and Big Rivers and Green River are ready, willing, and able to satisfy the contract terms. Commonwealth Aluminum is getting exactly what it contracted for -- the availability of a reliable source of from 40 MW to 60 MW of capacity. Commonwealth Aluminum may at any time reassess its business plan and elect to consume more than 40 MW of capacity. In fact, less than one month prior to the filing of this case, Green River was notified by Commonwealth Aluminum that its projected demand consumption would exceed 40 MW for every year from 1991 through 2009.

While Commonwealth Aluminum has asserted that the rate relief it now seeks is necessary because it can no longer remain competitive in the industry, the record is devoid of any evidence to support this claim. Commonwealth Aluminum presented no financial analysis of its own position or of the industry in which it operates.

Commonwealth Aluminum's understanding of the requested rate changes is flawed. The increase requested herein will result in a wholesale demand rate of $10.15 per KW which will be consistent with the demand rate approved for NSA under the variable rate settlement to become effective January 1, 1991. There is no credible evidence to demonstrate that the proposed rate increase disadvantages Commonwealth Aluminum or results in unfair rates for Commonwealth Aluminum or any customer group. The alternatives proposed by Commonwealth Aluminum would, however, result in preferential rate treatment for Commonwealth Aluminum, a result which would be unfair, unreasonable, and not supported by the evidence of record.

SUMMARY

The Commission, after consideration of the evidence of record and being advised, finds that:

1. The rate increase allowed Big Rivers in Case No. 90-128 results in an increase in power costs of $3,359,959, which Green River should be allowed to recover.

2. The rates in Appendix A, attached hereto and incorporated herein, are the fair, just, and reasonable rates for Green River to charge for service rendered on and after January 1, 1991.

3. The rate of return and TIER granted herein are fair, just, and reasonable and will provide for the financial obligations of Green River.

4. The rates proposed by Green River would produce revenue in excess of that found reasonable herein and should be denied upon application of KRS 278.030.

IT IS THEREFORE ORDERED that:

1. The rates in Appendix A are approved for service rendered by Green River on and after January 1, 1991.

2. The rates proposed by Green River are denied.

3. Within 30 days from the date of this Order, Green River shall file with this Commission its revised tariff sheets setting out the rates approved herein.

Done at Frankfort, Kentucky, this 21st day of December, 1990.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 90-152 DATED December 21, 1990.

The following rates and charges are prescribed for the customers in the area served by Green River Electric Corporation. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

RESIDENTIAL AND SINGLE-PHASE SERVICE

Monthly Rate:

Customer Charge	$7.91
First 600 KWH per KWH	7.1954¢
Next 400 KWH per KWH	6.3225¢
All Over 1,000 KWH per KWH	5.5735¢

Minimum Charge:

The minimum monthly charge shall be the applicable customer charge.

THREE-PHASE DEMAND - COMMERCIAL, LARGE POWER AND PUBLIC BUILDINGS LESS THAN 1,000 KW

Monthly Rate:

Customer Charge	$25.00
Plus Demand Charge of:	
Per KW of Billing Demand	$5.75
Plus Energy Charges of:	
First 200 KWH Per KW, Per KWH	5.2404¢
Next 200 KWH Per KW, Per KWH	4.7172¢
All Over 400 KWH Per KW, Per KWH	4.4870¢

THREE-PHASE DEMAND - LARGE POWER 1,000 KW AND ABOVE

AVAILABILITY OF SERVICE

Available to consumers located on or near the Corporation's three-phase lines for service at standard distribution voltages and which have a contract demand that equals or exceeds 1,000 KW or a metered demand that equals or exceeds 1,000 KW in any of the preceding 12 months.

Monthly Rate:

Option A - High Load Factor:

Customer Charge	$100.00
Plus Demand Charge of:	
Per KW of Billing Demand	$9.25
Plus Energy Charges of:	
First 200 KWH Per KW, Per KWH	4.00¢
Next 200 KWH Per KW, Per KWH	3.05¢
All Over 400 KWH Per KW, Per KWH	2.95¢
Secondary Voltage Adder	5%

Option B - Low Load Factor:

Customer Charge	$100.00
Plus Demand Charge of:	
Per KW of Billing Demand	$5.45
Plus Energy Charges of:	
First 150 KWH Per KW, Per KWH	4.82¢
All Over 150 KWH Per KW, Per KWH	4.50¢
Secondary Voltage Adder	5%

OPTIONAL RATE SELECTION

The consumer may choose to take service under Option A or Option B. The option chosen by the consumer will remain in effect for a minimum of 12 months. Thereafter, the consumer may, upon request, transfer from one option to the other after 12 months of service under the option previously chosen.

DETERMINATION OF BILLING DEMAND

The billing demand shall be the greater of, (1) 75 percent of consumer's highest 30-minute KW demand recorded in the current month, or (2) ninety-five percent (95%) of consumer's highest 30-minute KW demand recorded in the month in which the Corporation's regular tariff wholesale billing demand was established.

STREET AND INDIVIDUAL CONSUMER LIGHTING

Monthly Rate:

175 Watt Mercury Vapor Lamps: Per Lamp Per Month	$8.20
250 Watt Mercury Vapor Lamps: Per Lamp Per Month	$9.52
400 Watt Mercury Vapor Lamps: Per Lamp Per Month	$11.30

INDUSTRIAL CONSUMERS SERVED UNDER SPECIAL CONTRACTS

	Rate Per Unit
The rates to Commonwealth Aluminum, Inc., and Willamette Industries, Inc., shall be as follows:	
Demand Charge of: per KW of billing demand*	$10.15
Plus Energy Charge of: per KWH consumed	1.84506¢
The rates to Alumax, Green River Coal Company, Southwire Company and World-Source shall be as follows:	
Demand Charge of: per KW of billing demand*	$10.40
Plus Energy Charge of: per KWH consumed	2.06506¢

<u>The rates to Rose Brothers Trucking Company shall be as follows:</u>

Demand Charge of:	
per KW of billing demand*	$10.40
Plus Energy Charge of:	
per KWH consumed	4.59086¢

*Billing demand for purposes of this tariff shall be the contractual billing demand in the current billing month or the highest contractual billing demand in any of the previous eleven (11) billing months, whichever is greater.

CABLE TELEVISION ATTACHMENT TARIFF

<u>RENTAL CHARGE</u>

The yearly rental charges shall be as follows:

Two-party pole attachment	$2.81
Three-party pole attachment	$2.72
Two-party anchor attachment	$2.71
Three-party anchor attachment	$1.81